

**NUSHAGAK ELECTRIC AND
TELEPHONE COOPERATIVE, INC.**

RUS Letters

Year Ended December 31, 2014



AKT

CPA AND BUSINESS CONSULTANTS

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS OF
CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR
TELECOMMUNICATION BORROWERS**

To the Board of Directors
Nushagak Electric and Telephone Cooperative, Inc.
Dillingham, Alaska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Nushagak Electric and Telephone Cooperative, Inc., (the Cooperative), which comprise the balance sheet as of December 31, 2014, and the related statements of operations and patronage capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2015. In accordance with *Government Auditing Standards* we have also issued our report dated March 27, 2015, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 1, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, except as noted below, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts. The Cooperative's subsidiary plant records for central office and cable and wire have not been updated to agree with the general ledger. The Cooperative is in the process of updating these records to ensure the balances agree to the general ledger going forward;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;

- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the telecommunication or electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits; and
- Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments required by 7CFR 1773.33(i) is omitted as the Cooperative does not have investments in affiliated or subsidiary companies.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole and the detailed schedule of deferred debits and deferred credits required by 7 CFR 1773.33(h), provided below, is presented for purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deferred debits at December 31, 2014 relate to the electric division and consist of the following:

Overhaul and repair of generator no. 11
 Overhaul and repair of generator no. 13
 Overhaul of generator no. 14
 Overhaul of generator no. 15
 Air quality permits program
 Other

Total deferred charges



The Cooperative had no deferred credits at December 31, 2014.

This report is intended solely for the information and use of the Board of Directors, management, and the Rural Utilities Service and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

AKT LLP

Salem, Oregon
 March 27, 2015

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nushagak Electric and Telephone Cooperative, Inc.
Dillingham, Alaska

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Nushagak Electric and Telephone Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2014 and 2013 and the related statements of operations and patronage capital, and cash flows for the years ended, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

We consider the following to be a significant deficiency:

Accounting and Financial Reporting – During the course of the audit, we assisted the Cooperative's staff with reconciling certain activities and proposing adjustments to the general ledger. Our assistance with the reconciliations and adjustments was expected by management and the accounting staff and all of the proposed adjustments were accepted by management and posted to the general ledger. In some cases the adjustments are brought to our attention by the accounting staff while other adjustments are identified from our audit procedures. In addition, our expertise was required to draft the financial statements and supporting notes in conformity with accounting principles generally accepted in the United States of America.

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Management is responsible for the controls over the selection and application of accounting principles in conformity with accounting principles generally accepted in the United States of America, and is also responsible for the controls over the period-end financial reporting process. The period-end financial reporting process includes the controls over procedures used to initiate, authorize, record, and process transactions and journal entries into the general ledger; record recurring and nonrecurring adjustments to the financial statements; and prepare the financial statements and related notes. Having sufficient expertise in selecting and applying accounting principles is an aspect of such controls.

While the accounting staff of the Cooperative has the ability to perform the daily accounting functions and prepare monthly financial reports for management purposes, they have chosen to rely on the financial statement auditor to prepare the financial statements and supporting notes. Under current audit standards, the financial statement auditor cannot be considered part of the Cooperative's internal control over financial reporting, and therefore, our drafting of the financial statements and notes is considered to be a significant deficiency in the Cooperative's internal control over financial reporting.

Even though management has requested the auditors' assistance in preparing the financial statements and notes, management is still responsible for the financial information presented. In addition, management is responsible for:

- Making management decisions and performing all management functions.
- Designating an individual with suitable skill, knowledge, or experience to oversee the services provided by the auditors.
- Evaluating the adequacy and results of the services performed by the auditors.
- Accepting responsibility for the results of the services performed by the auditors.

Management Response

The Cooperative has evaluated the situation and has determined that it is cost prohibitive at this time to internally staff this level of expertise and believes that the monthly financial reports to management are appropriate. The Cooperative will continue to outsource the drafting of the annual, financial statements and supporting notes to external experts. Management has reviewed the draft financial statements and disclosures and has represented that they have taken responsibility for the statements including disclosures.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Cooperative's response was not subject to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AKT LLP

Salem, Oregon
March 27, 2015

Nushagak Electric and Telephone Cooperative Inc. ("NETC")

2015

PROGRESS REPORT ON SERVICE QUALITY IMPROVEMENT PLAN

PREAMBLE

This document is an integral part of the Company's 2015 Annual Report, as attached to Form 481. It is in compliance with §54.313(a)(1) adopted in the FCC's USF/ICC Transformation Order (11-161) and incorporates all further clarifications identified in subsequent Reconsideration Orders, as applicable, that were in effect at the time the Annual Report was due by Rule to the requisite regulatory authorities.

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UNIVERSAL SERVICE SUPPORT RECEIVED IN 2015

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PROGRESS REPORT

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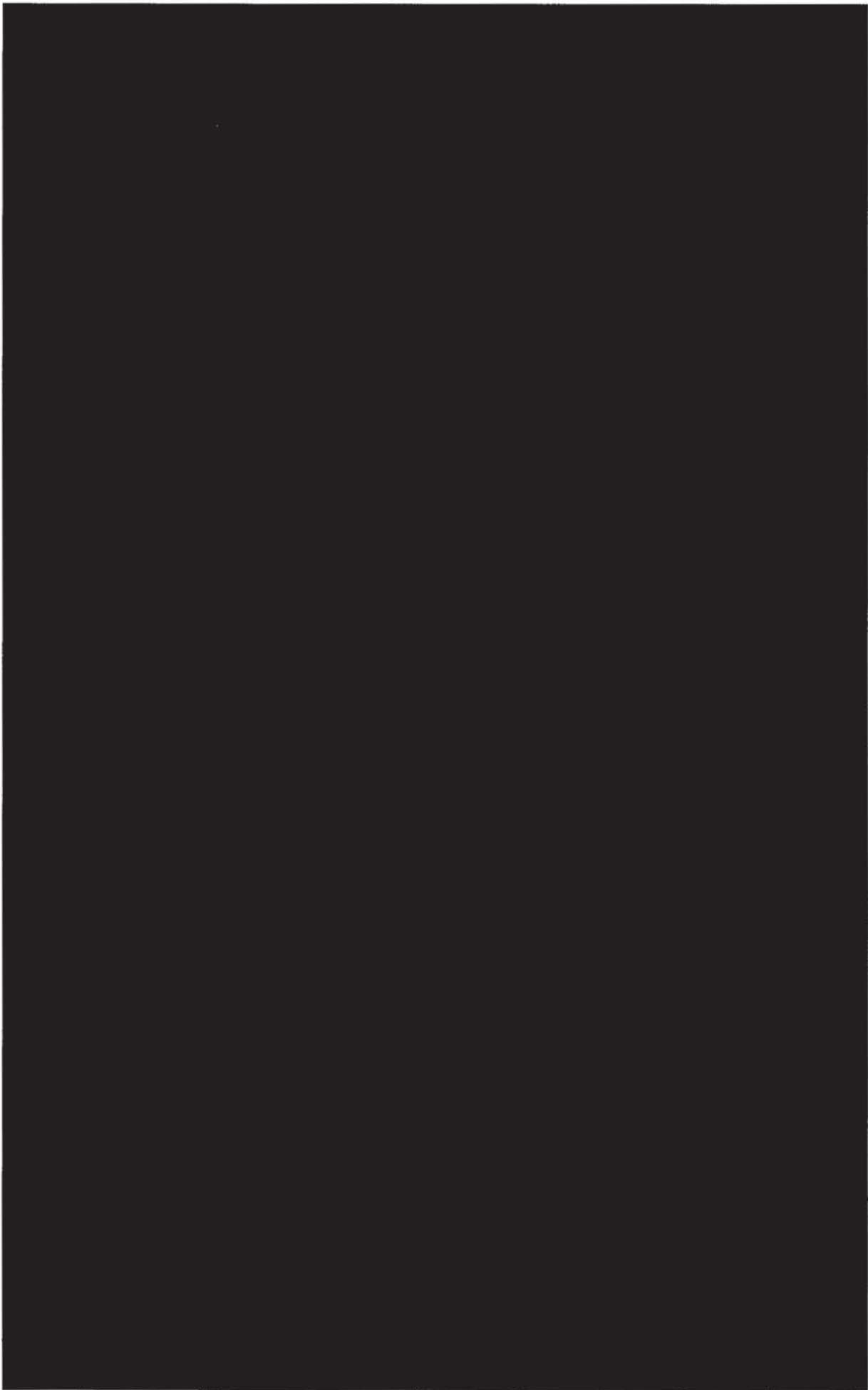
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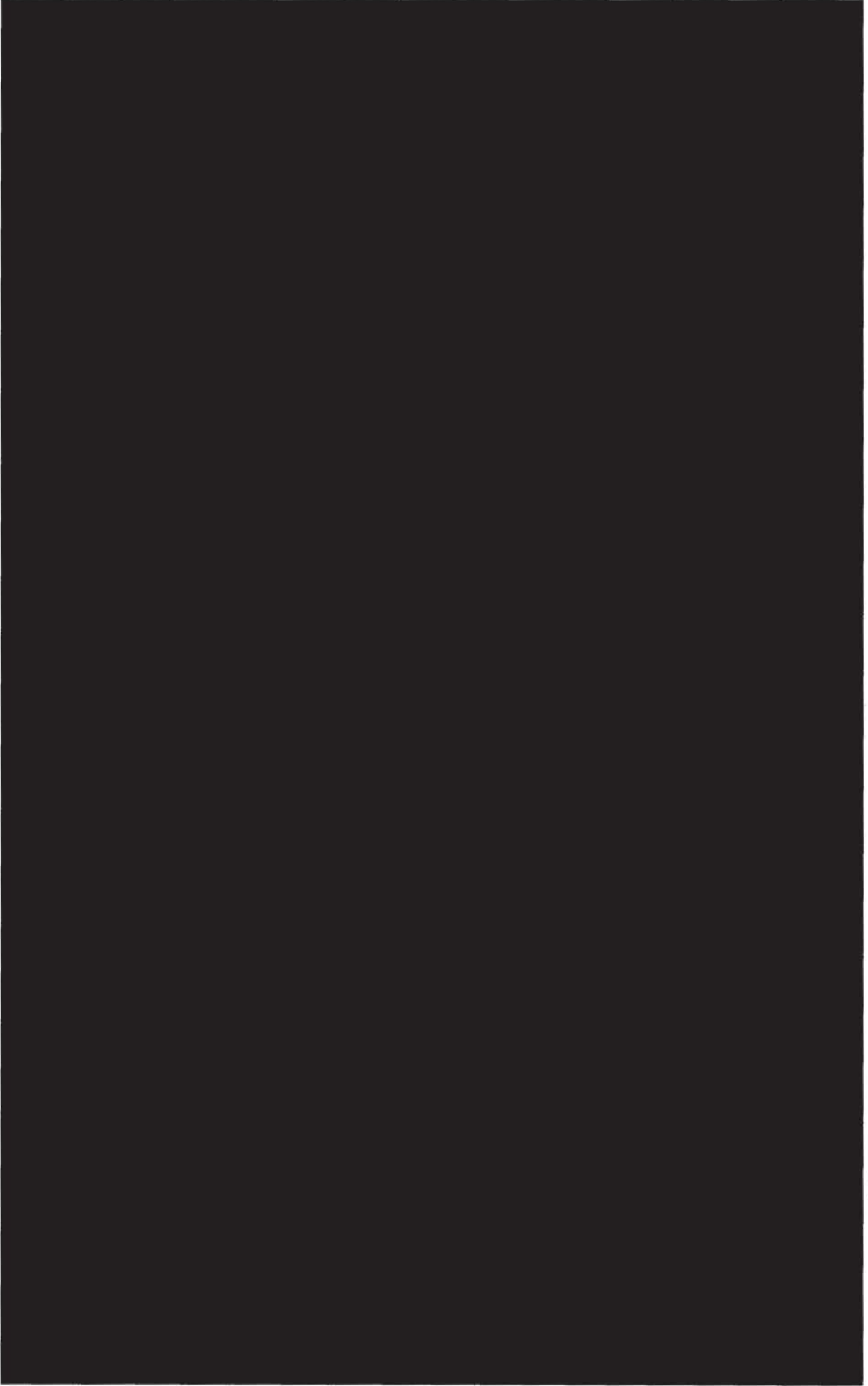
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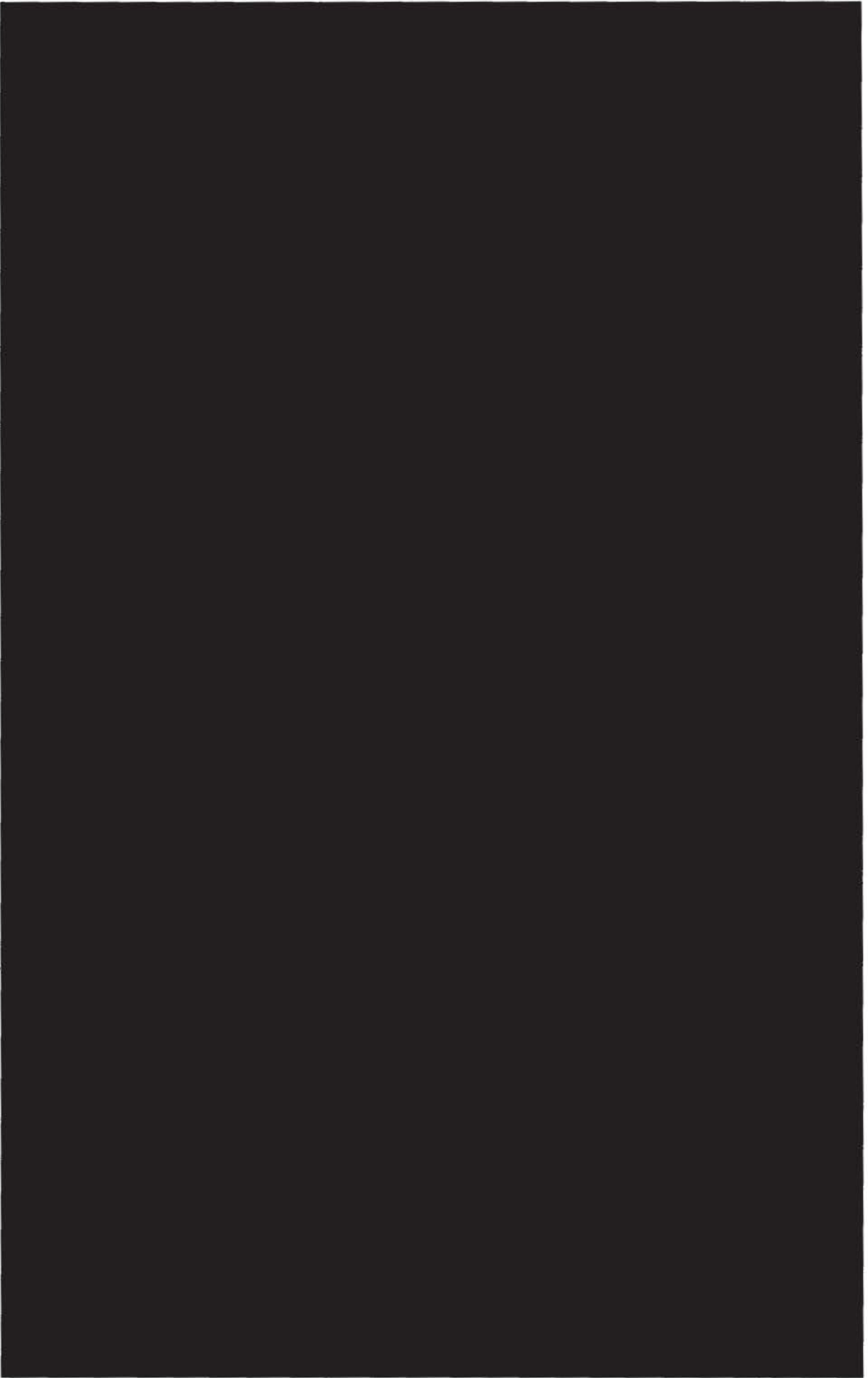
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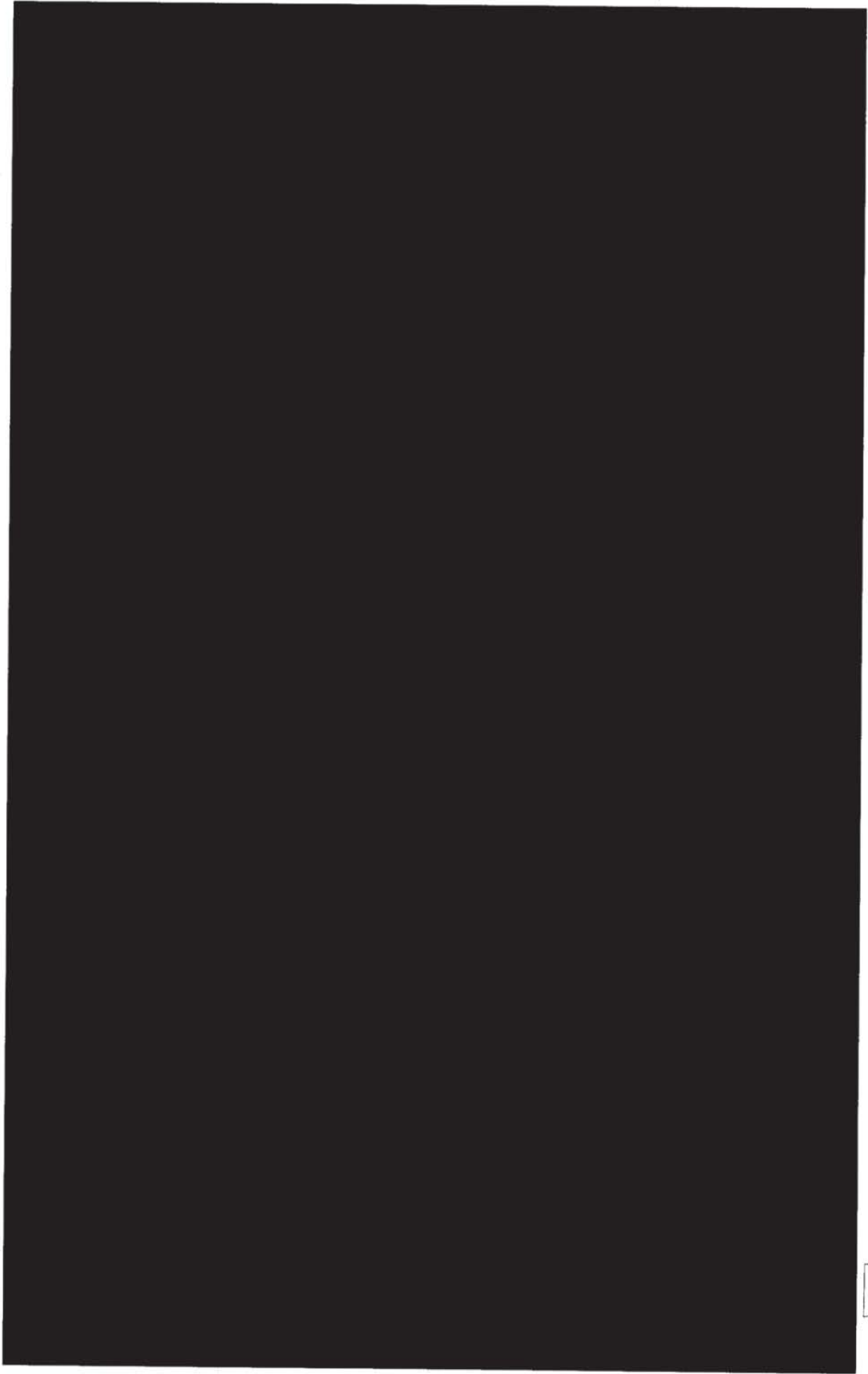


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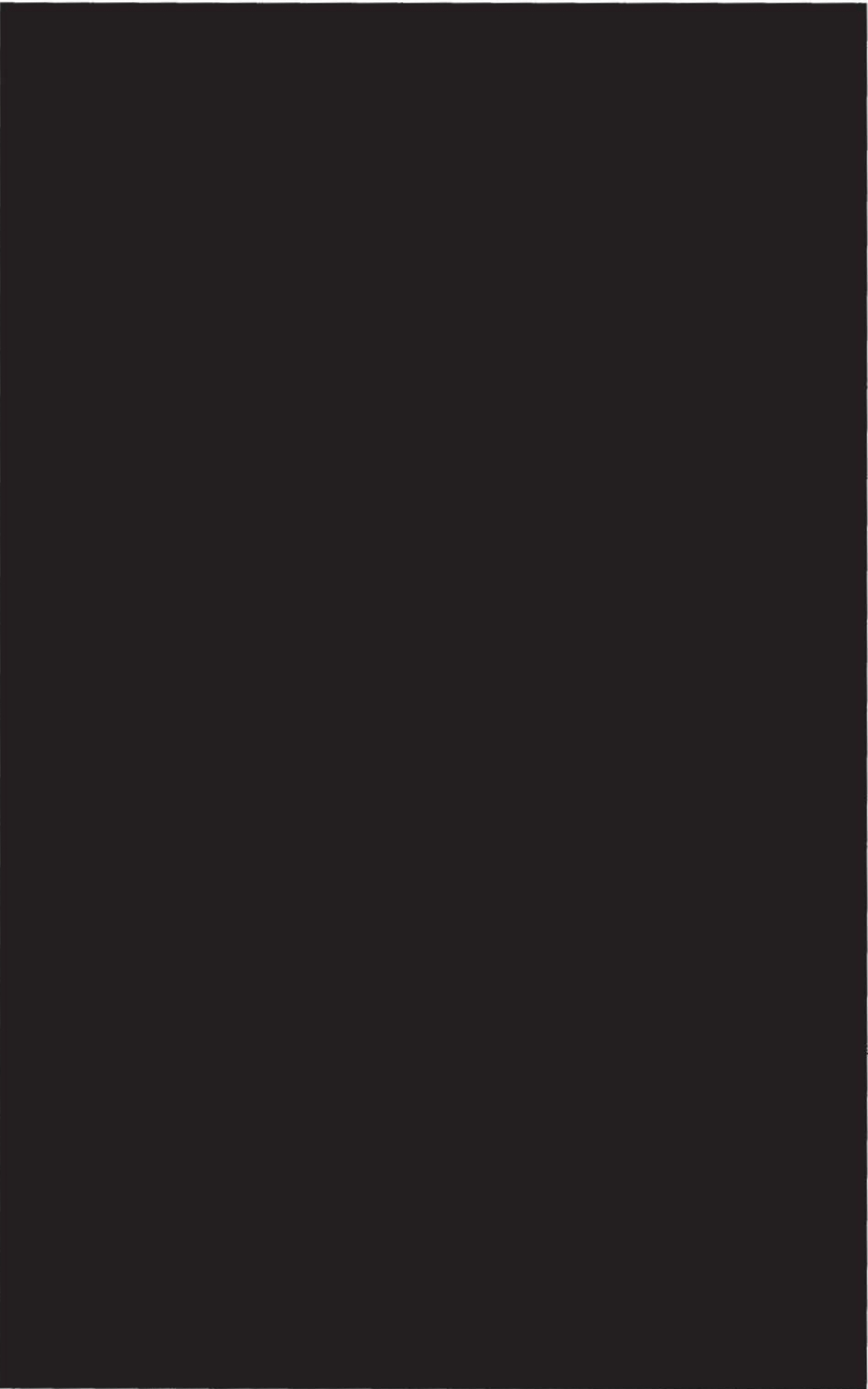
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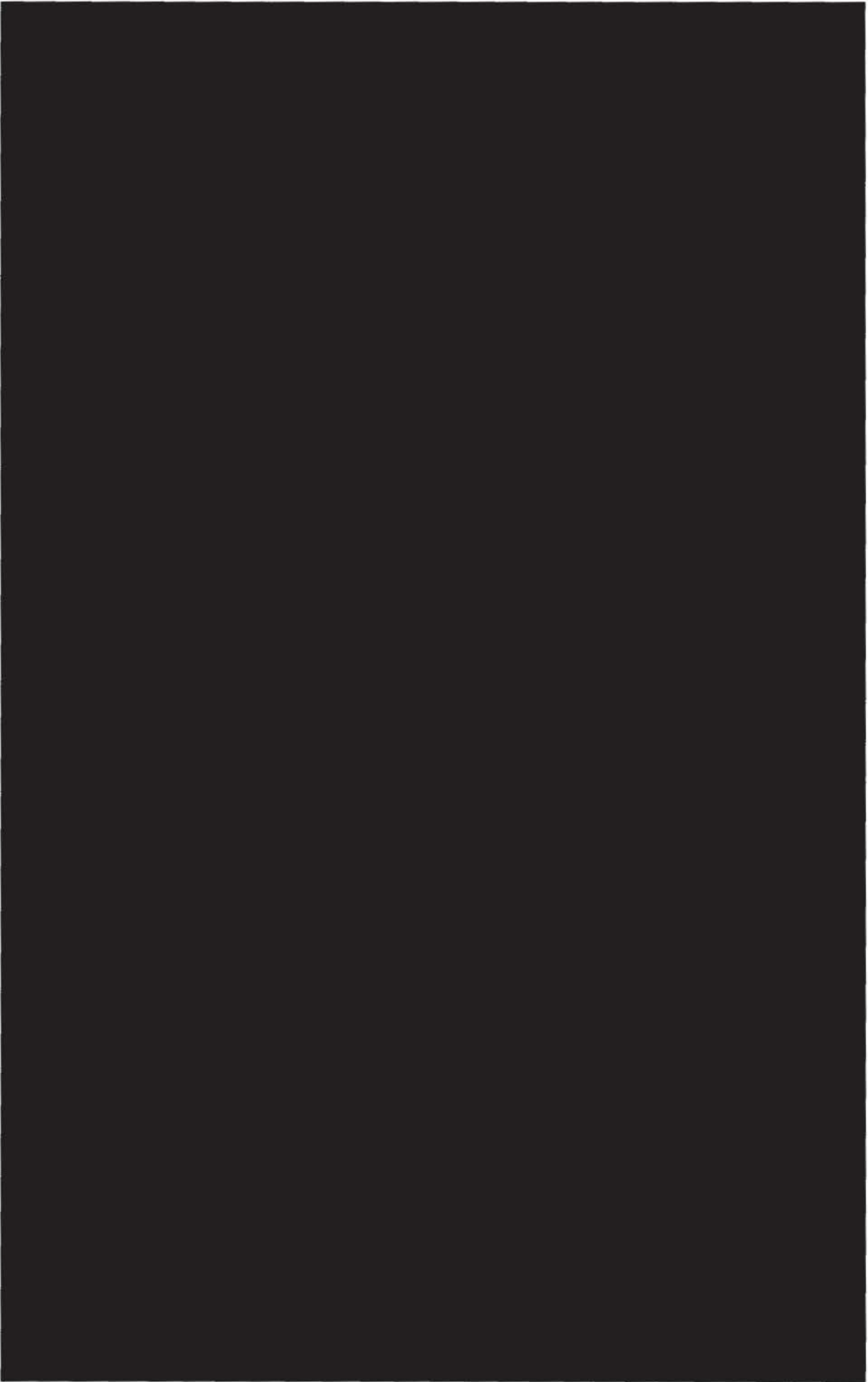


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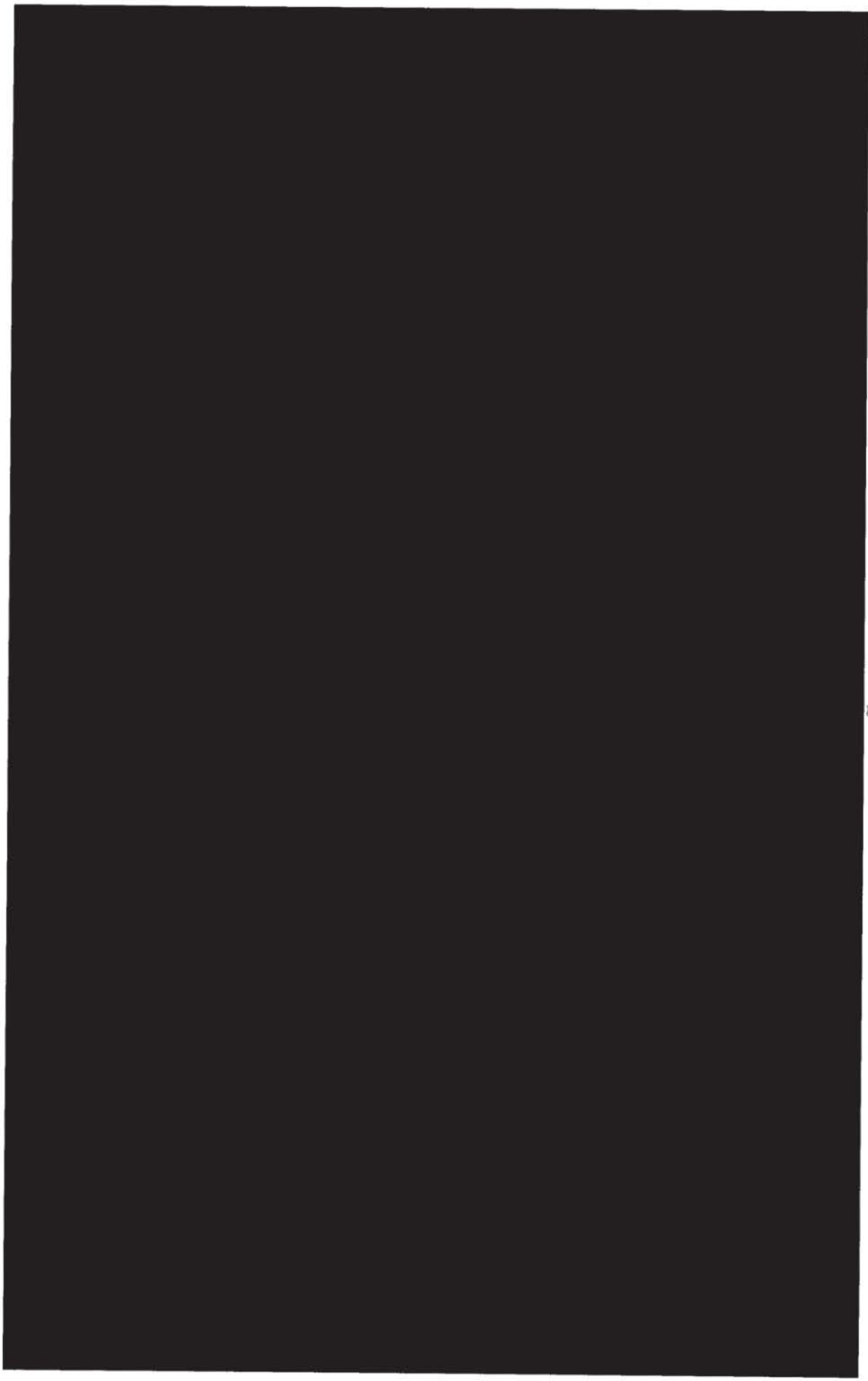
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